

Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, DC 20554

In the Matter of	)	
Federal-State Joint Board on	)	WC Docket No. 05-
337		
Universal Service	)	

**Reply Comments of the  
Rural Utilities Service**

**TABLE OF CONENTS**

Introduction.....	2
A. The Program.....	2
B. Minimizing Risk of Diminished Return on Existing Investment.....	3
C. Test the Approach in Areas of Greatest Need.....	4
Conclusion.....	5

## **Introduction**

The Rural Utilities Service, an agency which administers the Telecommunications Program of USDA Rural Development's Utilities Programs (the "Agency" or "USDA Rural Development"), has long been a key component of the national strategy to promote the goal of Universal Service through the use of low-interest financing, area coverage requirements and technical specifications and standards. The Agency appreciates the opportunity to comment on the proposal regarding the use of auctions to determine high-cost universal service support. The focus of the Agency's comments centers on its commitment and vision to create new opportunities to build strong, community-based solutions that improve education, health care, economic development, and the overall quality of life in rural America through the deployment of advanced communications services.

USDA Rural Development appreciates the Commission's desire to ensure that universal service is achieved in a cost-effective manner. Any changes to the current support mechanisms, however, must take into consideration the significant investment in modern communications infrastructure made over the past several decades in rural areas across the country. Further, the Commission should exercise caution in its approach to ensure that the gains achieved are not outweighed by unnecessary risks to the national rural communications infrastructure, delivery of advanced communications services and, ultimately, the quality of life for rural Americans.

## **The Program**

USDA Rural Development's Telecommunications Program improves the quality of life in rural America by providing investment capital for deployment of rural telecommunications infrastructure in a financially

responsible manner. Financial assistance is provided to rural utilities; municipalities; commercial corporations; limited liability companies; public utility districts; Indian tribes; and cooperative, nonprofit, limited-dividend, or mutual associations.

In order to achieve the goal of increasing economic opportunity in rural America, the Agency finances infrastructure that enables access to a seamless, nationwide telecommunications network. Without access to advanced telecommunications networks, rural America will suffer the consequences in the form of declining educational opportunities, inadequate health care, depressed economies, and high unemployment. As technology continues to rapidly evolve and users demand more robust services, systems must be designed to be adaptable and scalable for current as well as future use.

At present, the Agency has over 550 LEC borrowers (with \$3.5 billion in loans outstanding) on whom millions of rural consumers rely for service. Through the Agency and other sources of funding, these providers continue to upgrade their systems and deliver high quality communications service to the most rural areas in the country. The costs associated with serving these areas require these borrowers to rely on USF to repay Agency loans, operate and continue to provide comparable services at comparable rates.

### **Minimizing Risk of Diminished Return on Existing Investment**

The Agency and Commission, through loans, USF funding and minimum technical standards, have facilitated the deployment of infrastructure that, given technological advances, is capable of delivering voice as well as other services. For example, the Rural Electrification Loan Restructuring Act of 1993 directed the Agency to make loans only for plant

capable of providing advanced services. As a result 92% of currently active RUS borrowers have systems that are advanced services capable. This rural network provides education, healthcare and other vital communications services that rural residents demand.

In considering modified approaches to high-cost funding, such as a reverse auction, the Commission should work to ensure that the significant progress made in creating the modern rural telecommunications network is not stranded. In addition the Commission should consider the increased risk to the Agency's ability to continue to promote universal service in rural America through financially feasible projects.

Rural carriers have made a substantial investment in providing service to their customers, with over \$15.8 billion in plant in service, 785,813 miles of line, including 121,415 miles of fiber. Over \$1 billion, of which approximately one-quarter was from USDA Rural Development lending, in investment was made last year alone.

While a reverse auction methodology may yield some reductions in current USF expenditures, it could also be detrimental to the progress made in rural areas where advanced services provided through modern plant currently exist. Under certain scenarios, the Agency is concerned that "lowest" bidders may not be able to provide service at current levels and eventually may not be able to fulfill their obligation as carrier of last resort.

### **Test the Approach in Areas of Greatest Need**

The Agency and Commission have similar goals in promoting universal service and the deployment of advanced services, such as broadband. The

Commission's proposed use of reverse auctions could serve to promote advanced services in areas where service does not exist or is deficient.

- As such, these unserved/underserved areas will have an opportunity of receiving services meeting a specified minimum technical standard.
- Use of the reverse auctions in unserved/underserved areas would also create a body of evidence as to the practicality of their use on a larger scale and provide market based, forward looking cost data for deployment in unserved/underserved areas.

The Agency suggests that the reverse auction concept be tested through a field trial in areas where the risks to modern infrastructure and to rural consumers is lowest. For example, the Commission could conduct a trial in unserved areas or underserved areas where the plant does not meet the minimum technical standard for modern telecommunications services, as specified by the Commission, and where no plan for improvement is in place. This would enable the concept to be tested without harming the existing infrastructure and services if the auctions do not produce the desired results.

### **Conclusion**

In conclusion, the Agency urges caution on the part of the Commission as it considers approaches to improve universal service support mechanisms. Given the Agency's long history and strong partnership with rural communities, the Agency welcomes the opportunity to provide relevant information to the Commission and explore ways to promote our mutual goal of achieving universal service on behalf of all rural consumers.

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